

KELLOGG, HUBER, HANSEN, TODD & EVANS, P.L.L.C.

SUMNER SQUARE
1615 M STREET, N.W.
SUITE 400
WASHINGTON, D.C. 20036-3209

(202) 326-7900

FACSIMILE:
(202) 326-7999

August 14, 2003

Ex Parte Presentation

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: *Application by SBC Communications Inc., et al. for Provision of In-Region, InterLATA Services in Michigan*, WC Docket No. 03-138

Dear Ms. Dortch:

On behalf of SBC Communications Inc. ("SBC"), I am writing to notify you that, yesterday, representatives of SBC met separately to discuss the above-referenced application with Chairman Powell and his Legal Advisor Christopher Libertelli; Commissioner Abernathy and her Senior Legal Advisor Matthew Brill; and Commissioner Martin and his Senior Legal Advisor Daniel Gonzalez. Bill Daley, John Stankey, and Jim Smith attended each of these meetings on behalf of SBC. The handout enclosed as Attachment 1 to this letter was distributed at the meetings with Commissioners Abernathy and Martin.

In addition, at the request of Commission staff, I am enclosing as Attachment 2 to this letter a table showing the percentage of eligible orders in the Midwest region that electronically post to the CABS database. This table updates the data provided in Table 1 of the April 3, 2003, Ex Parte Letter of Geoffrey M. Klineberg on behalf of SBC to Marlene Dortch, FCC, WC Docket No. 03-16 (see Attach. at 5). Finally, Rebecca Sparks and Jamie Williams, on behalf of SBC, spoke by telephone yesterday afternoon with Gina Spade of the Commission's staff regarding performance measures.

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Ex Parte Presentation

In accordance with this Commission's Public Notice, DA 03-2039 (June 19, 2003), SBC is filing this letter and its attachments electronically through the Commission's Electronic Comment Filing System.

Yours truly,

A handwritten signature in black ink, appearing to read "Colin S. Stretch".

Colin S. Stretch

Attachments

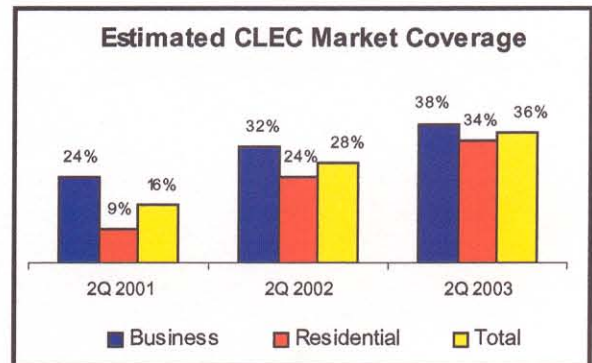
cc: Gina Spade
Susan Pié
Rodney Gregg
Layla Seirafi-Najar
Qualex International

ATTACHMENT 1

The Status of Competition in Michigan

Competitive Local Exchange Carriers (CLECs) serve about 2.2 million, or 36 percent, of the access lines in the SBC service area in Michigan.¹

- CLECs continue to target the lucrative business market, serving more than 1 million business lines or about 38 percent. CLECs also serve more than 1.1 million, or about 34 percent, of residential lines.



As of June 2003, CLECs continue to increase their reliance on UNE-Ps, which are now used to serve 52 percent of their customers compared to 43 percent only a year ago.

- In the last quarter, UNE-P access lines increased by 86,500 or 8 percent. Over 12 months, UNE-P access lines increased over 396,400 or 53 percent, with large percentage gains in both residential and business markets.
- In contrast, CLECs rely less on other methods of service delivery:
 - CLEC switch-based access lines increased by about 5,600 or 1 percent in the last quarter, and by about 127,000 or 14 percent over the past 12 months.
 - Resold access lines decreased about 4,300 or 12 percent in the last quarter, as compared to a decrease of 44,100, or 59 percent for the last 12 months.

Michigan Estimated CLEC Access Lines by Type		2Q 2002	3Q 2002	4Q 2002	1Q 2003	2Q 2003	3 - Month Chg.	12 - Month Chg.	% of Total CLEC Lines
UNE-P Combos	Residence	637,919	718,633	799,345	899,594	972,205	8%	52%	52%
	Business	112,976	134,243	147,704	161,190	175,130	9%	55%	
	Total	750,895	852,876	947,049	1,060,784	1,147,335	8%	53%	
Estimated Switch-based Lines (excludes UNE-P)	Residence	149,786	167,510	158,080	151,945	154,032	1%	3%	47%
	Business	774,976	814,383	863,135	894,801	898,346	0%	16%	
	Total	924,762	981,893	1,021,215	1,046,746	1,052,378	1%	14%	
UNE-L		181,274	192,561	191,993	187,589	189,381	1%	4%	
Resold Lines	Residence	38,322	30,381	14,036	11,564	9,248	-20%	-76%	1%
	Business	36,912	25,138	24,032	23,901	21,828	-9%	-41%	
	Total	75,234	55,519	38,068	35,465	31,076	-12%	-59%	
Total Estimated CLEC Access Lines	Residence	826,027	916,524	971,461	1,063,103	1,135,485	7%	37%	100%
	Business	924,864	973,764	1,034,871	1,079,892	1,095,304	1%	18%	
	Total	1,750,891	1,890,288	2,006,332	2,142,995	2,230,789	4%	27%	

¹ Calculation of CLEC lines in this report use the methodology described on page 4 as Estimate 1. (For comparison, the number of CLEC access lines resulting from use of an alternative methodology, designated as Estimate2, is provided on page 4.)

The competitive story is now bigger than just CLECs. Customers are choosing competitors offering other technologies that can be substituted for wireline services.

- The total local telephone market is “intermodal,” offering services to customers not only using traditional wireline services but also using wireless and broadband technologies.
- Use of intermodal services is estimated to account for a 13 percent decline in residential wireline subscribers (9% SBC, 4% CLEC).

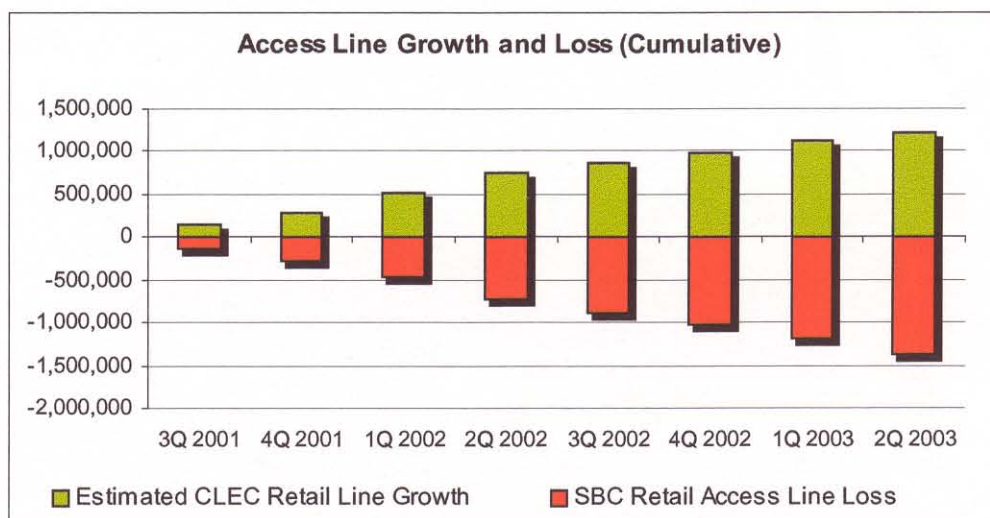
Residential Market within the SBC Michigan Service Area

Method of Service Delivery	Number of Residential Lines (000)			Local Telephone Market Share	
	2Q 2002	2Q 2003	% Change	2Q 2002	2Q 2003
Traditional Wireline Group					
SBC - Wireline	2,655	2,197	-17%	70%	57%
CLEC - Wireline	826	1,135	37%	22%	30%
Technology Substitution Group					
Wireless	220	276	25%	6%	7%
Cable Modem	86	216	151%	2%	6%
Total Local Telephone Market (including substitution)	3,787	3,824	1%	100%	100%

- Substitution will have an even more dramatic effect on wireline operators as customers switch to alternative technologies such as voice transmission over the Internet (e.g., VoIP).

SBC Michigan has steadily lost market share to CLECs and technology substitution in the traditional wireline market.

- In the 24-month period ending second quarter 2003, CLEC access lines have grown 1.2 million while SBC retail access lines have decreased more than 1.3 million as shown below. This trend clearly demonstrates the intense competition that has developed in SBC Michigan’s local serving area.

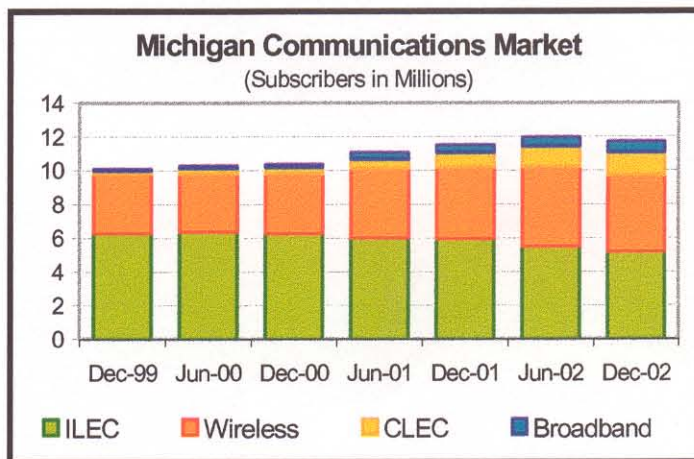


- Nationally, this trend is expected to continue for residential and business access lines as incumbent local exchange carriers experience an annual line loss rate of 5.6 percent while CLECs grow at an annual rate of 12.2 percent.²

² IDC, *U.S. Residential Landline Telecommunications Forecast and Analysis, 2002-2007* (March 2003).

The Michigan statewide communications subscriber base continues to expand. As of December 2002, ILEC customers represent only 44 percent of total subscribers.³

- In addition to ILEC customers, wireless subscribers represent 39 percent of the total market, CLEC subscribers comprise 12 percent of the market, and broadband customers make up 5 percent of total subscribership.
- Overall, Michigan's communications market grew at a rate of 5 percent annually over the three years from December 1999 to December 2002, increasing from 10.1 million to 11.7 million subscribers.
 - Unlike other telecommunication sectors, ILECs actually experienced an annual 6.3 percent subscribership loss over the period.
 - Broadband, in contrast, experienced rapid growth, increasing by 99.1 percent a year.
 - CLECs showed the second greatest annual increase at 86.8 percent.
 - Wireless subscribership had the third largest annual growth rate of 8.7 percent.



The number of wireless users and the flexibility of wireless technology make it a strong candidate for replacing traditional wireline services.⁴

- Wireless subscribers numbered 4.5 million as of December 2002, reflecting an increase of more than 278,700 subscribers over the 12-month period between December 2001 and December 2002.⁵
- National estimates show that more than 23 million access lines will be displaced by wireless between 2002 and 2006, representing a displacement rate of 17 percent per year over this period.⁶

In the broadband market, cable modem and other high-speed technologies enjoy an 83 percent market share; DSL serves only 17 percent.⁷

- Broadband, which is dominated by cable modem, often eliminates the need for a second phone line. Cable companies are starting to replace wireline by providing cable telephony to their subscribers using VoIP, an alternative to traditional voice communications.⁸
- Nationwide, cable companies serve more than 3.0 million cable telephony subscribers over their broadband networks.⁹ An estimated 25,800 cable telephony subscribers reside in SBC Michigan's serving area as of second quarter 2003.¹⁰

Conclusion: The communications market in SBC's serving area is open to competition. Customers' competitive choices have expanded from CLEC wireline services to include wireless and broadband alternatives.

³ FCC, Wireline Competition Bureau, *Local Telephone Competition: Status as of December 31, 2002* (Washington, D.C., June 2003), Tables 8, 9, and 13; and FCC, Wireline Competition Bureau, *High Speed Services for Internet Access: Status as of December 31, 2002* (Washington, D.C., June 2003), Table 8.

⁴ "Deserving special notice, the most significant competition in voice (local and long distance) has come from wireless phone service," Summary of Written Statement of FCC Chairman Michael Powell, January 14, 2003.

⁵ *Local Telephone Competition: Status as of December 31, 2002*, Table 13.

⁶ IDC, *Wireless Displacement of Wireline Forecast and Analysis, 2002-2006* by Scott Ellison (October 2002).

⁷ *High-Speed Services for Internet Access: Status as of December 31, 2002*, Table 7.

⁸ *Local Telephone Competition: Status as of December 31, 2002*, page 2.

⁹ *Local Telephone Competition: Status as of December 31, 2002*, page 2.

¹⁰ Cable telephony access lines are estimated by extracting the cable telephony provider's end user E911 listings from the E911 database.

Methodology

CLEC Access Line Estimate

SBC does not have access to an exact accounting of access lines served by CLECs in its local service areas (only the CLECs themselves have such data). Therefore, SBC estimates the number of CLEC access lines using two different methodologies, one based on interconnection trunks, and the other based on E911 database listings.¹¹ These are the same conservative methodologies used by SBC and reviewed by the FCC in connection with the Oklahoma, Kansas/Oklahoma and Missouri/Arkansas 271 Applications.

Estimate 1: (Interconnection Trunks * 2.75) + UNE-Ps + Resold Lines

Interconnection Trunks are used by switch-based CLECs to connect their network to the SBC network for the purpose of passing traffic. Thus, CLEC end users are able to connect with SBC end users, and vice versa.¹² Interconnection trunks have the capacity to serve multiple CLEC access lines. SBC uses a conservative 2.75:1 access line-to-trunk ratio¹³ to estimate the number of access lines served by CLECs using interconnection trunk capacity purchased from SBC.

Because UNE-P arrangements and resold lines are served via SBC switching facilities, no interconnection trunks are required to transport CLEC UNE-P and resale traffic to the SBC network. Accordingly, SBC adds UNE-P and resold lines to the access line-to-trunk ratio to estimate the total access lines served by CLECs in the SBC local service areas.

The business/residence split for access lines served by CLECs using SBC interconnection trunks is estimated using the same ratio of business-to-residence lines as that appearing in the E911 database listings for switch-based CLECs.

Estimate 2: E-911 Listings + UNE-Ps + Resold Lines

CLECs using their own switching facilities to provide service to end users are responsible for establishing and maintaining the telephone number listings for those customers in the E911 databases, and for designating whether the service provided to those telephone numbers is business or residential in nature.¹⁴ Switch-based CLEC E911 listings therefore provide another method of estimating CLEC access lines.

The E911 listings utilized in this estimate are only those listings served by switch-based CLECs, as input and updated by those CLECs themselves. As noted above, UNE-P and resold lines are not served using a CLEC switch. SBC therefore adds UNE-P and resold lines to the switch-based E911 listings to estimate the total access lines served by CLECs in the SBC local service areas. Because the E911 databases do not reflect all access lines served by switch-based carriers, the E911 estimate of CLEC access lines is overly conservative.¹⁵ The matrix below lists the estimated CLEC lines and market coverage for using Estimate #2 calculations.

Michigan 2Q 2003 – Estimate #2	Estimated CLEC Lines	Estimated CLEC Market Coverage
Business	688,542	28%
Residential	1,065,741	33%
Total	1,754,283	31%

¹¹ All numbers quoted and data used in estimating competition are the most accurate numbers available as maintained in the SBC internal systems. Various factors involved in the data collection process - including manual processes and reliance on CLEC data - may result in fluctuation of the numbers.

¹² Interconnection trunks carry traffic from access lines served using the CLECs own loop facilities, as well as those served using unbundled loops purchased from SBC. Both types of service provided by switch-based CLECs therefore are included in this estimate.

¹³ See, e.g., UNE Fact Report at III-14, attached to Comments of the United States Telecom Association, Implementation of the Local Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98 (FCC filed May 26, 1999) (observing that “based on ILEC engineering experience, a single trunk can support up to approximately 10 facilities-based lines” and conservatively assuming that “CLEC trunks are serving between 2.5 and 5 facilities-based lines per trunk”); and US LEC Legal Information (May 3, 2000), utilizing an access line to trunk ratio of 5:1 to estimate the “equivalent access lines” served by its network.

¹⁴ The switch-based CLEC E911 listings used in this estimate include access lines served by such CLECs over their own loop facilities, as well as those served using unbundled stand-alone loops purchased from SBC.

¹⁵ For example, the E911 database generally does not include listings for “inbound only” access lines used by business entities such as call centers, reservation agencies and telemarketing centers, nor does it include access lines reported in competing E911 databases. CLECs presumably have won a significant number of those lines because they targeted such customers under the reciprocal compensation regime.

Wireless and Cable Modem Substitution Estimate

Customers have more ways of communicating than ever before and are increasing their usage of the various technology alternatives, while SBC continues to invest and maintain its traditional wireline network. Customers are adopting wireless and broadband as alternate methods to communicate and in many cases as substitutes or replacements for traditional wireline services.

SBC does not have access to an exact accounting of wireless or cable modem subscribers within its' local service area (only the individual providers themselves have such data). Therefore, SBC estimated the number of wireless and cable modem subscribers to determine their impact on the traditional wireline market. SBC's methodology is based on the carrier provided statewide volumes reported to the FCC to evaluate the status of local competition and availability of advanced services.¹⁶

SBC calculated the number of wireless subscribers within its local service areas based on the ratio of estimated wireline end-users within the SBC local service area to FCC reported statewide wireline end-users. The number of wireless subscribers within the SBC local service area was then determined by multiplying that ratio times the FCC reported statewide wireless subscribers. Based on an industry market analysis, it is estimated that 70 percent of these wireless subscribers are considered to be consumers.¹⁷

The estimated number of cable modem subscribers within the SBC local service area is calculated based on the ratio of FCC statewide ADSL to coaxial cable high-speed lines multiplied by SBC DSL lines in-service. This represents the estimated number of cable modem lines within the SBC local service area.

Wireless Substitution¹⁸

Analysis have estimated that 3 to 5 percent of wireless customers use their wireless phone as their only phone.¹⁹ As of 1Q 2002, this report assumes 2.8 percent of wireless customers in the SBC local service area rely on their wireless phone as their only phone. This percentage is increased by a tenth of a percent each quarter. This represents customers who rely upon wireless service only within the SBC local service area.

Studies estimated the wireless displacement rate of additional lines varied from 7 percent to 12 percent.²⁰ The estimate of 7 percent was used to calculate the growth of wireless subscribers in the SBC local service area who purchased a cellular phone instead of installing an additional line.²¹ Total wireless substitution equals the sum of wireless only customers and customers who replaced/displaced additional landlines with wireless service within the SBC local service area.

Cable Modem Substitution²²

Estimates vary from 26 to 50 percent of cable modem subscribers who substitute cable modem service for an additional landline.²³ Substitution includes customers who disconnected an additional line when they purchased cable modem service, and customers who would have purchased an additional line if they had not purchased cable modem service (marginal displacement).

Cable modem substitution is derived from the total cable modem market within the SBC local service area multiplied by the percentage of cable modem subscribers substituting cable modem service for an additional landline. For the purpose of this report, the percent of the cable modem subscribers substituting cable modem service for an additional line varies by SBC local service area.

¹⁶ Federal Communications Commission, Wireline Competition Bureau, *Local Telephone Competition: Status as of June 30, 2002*, Table 6 & 11 and *High-Speed Services for Internet Access: Status as of June 30, 2002*, Table 7 (Washington, D.C., December 2002).

¹⁷ IDC, *U.S. Business Wireless Subscriber Forecast, 2003-2007: Life in the Fast Lane*, Keith Waryas (March 2003), Table 2 p. 9.

¹⁸ Defined as customers who have disconnected or not purchased traditional wireline service, replacing either a primary line or an additional line, as a result of purchasing wireless service.

¹⁹ Federal Communications Commission, *7th Report- Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services*, (Washington D.C., July 3, 2002) p. 32.

²⁰ SBC Internal Market Analysis. IDC, *Wireless Displacement of Wireline Access Lines Forecast and Analysis, 2002-2006*, Scott Ellison (October 2002), p. 19.

²¹ IDC, *Wireless Displacement of Wireline Access Lines Forecast and Analysis, 2002-2006*, Scott Ellison (October 2002), p. 19.

²² Defined as customers who have disconnected or not purchased landline local exchange service, replacing an additional line, typically used for dial-up Internet service, with cable modem service. DSL substitution of additional lines is not included in this analysis.

²³ SBC Internal Market Analysis. Yankee Group, *Wireless Voice and Broadband Access Unlock Local Line's Grip on Consumers*, Aurica Yen (October 2002), p. 7.

ATTACHMENT 2

Mechanical Posting of UNE-P Billing Service Orders in SBC Midwest

Month	Total Orders Processed by RoboTask	Orders that Mechanically Post to CABS	% of Orders That Mechanically Post to CABS
Mar - 02 ¹	162,623	115,462	71%
Apr - 02	342,209	253,712	74%
May - 02	390,136	316,942	81%
Jun -02	396,840	355,946	90%
Jul - 02	389,425	362,268	93%
Aug -02	516,082	477,038	92%
Sep - 02	504,755	467,531	93%
Oct - 02	510,109	468,171	92%
Nov - 02	462,641	428,920	93%
Dec - 02	484,063	438,983	91%
Jan - 03	521,657	484,906	93%
Feb - 03	516,592	490,286	95%
Mar -03	543,438	519,556	96%
Apr -03	556,277	526,912	95%
May-03	644,206	608,375	94%
Jun-03	796,141	759,503	95%
Jul-03	640,615	601,779	94%

¹ The data for March 2002 reflect orders processed between March 12 and the end of the month.